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TAGS: EFIN ECON EINV PREL KS  
SUBJECT: KOREA RAMPS UP ITS G20 EFFORTS; SEEKS TO  
COORDINATE WITH U.S.

REF: SEOUL 152

Classified By: Minister Counselor Andrew Quinn.  
Reasons: 1.4(B) and (D).

¶1. (C) Summary: Korea has ramped up its efforts on the G20 process, and ideally hopes to see the G20 become the main forum for global economic and financial coordination in the future. Former Finance Minister Sakong Il, Korea's new coordinator on G20 issues (as well as senior advisor to President Lee on economic issues), explained to EMIN that Korea believes because of its diverse membership, the G20 has a global legitimacy that many feel the G7 no longer has at this point. Moreover, the G20 has "the right mix of members" -- a diverse range of views and experiences, but also a core of pragmatic voices that can guide the group to pro-market decisions rather than get bogged down in ideological crusades. There were some alternative proposals being floated for a G13 or G14, Sakong acknowledged, but Korea does not see a compelling rationale for a more limited grouping, and new fora would not enjoy the existing track record and infrastructure the G20 has already established. Sakong recognized that as a member of the G20 (and its Chairman in 2010), Korea had a vested interest in supporting the G20 process, but said Korea believed that by any measure, it deserved a place at the table of global economic policy coordination. Not only was Korea the 13th largest economy in the world, but its highly developed trade and financial ties ranked it even higher by many global indices -- e.g., the sixth largest foreign exchange reserves in the world, and the sixth largest trading nation in the world (excluding intra-EU trade).

¶2. (C) Looking toward the April 2 G20 summit in London, Sakong said Korea is generally hopeful about the outcome. But he is concerned that trying to resolve some of the most complex regulatory issues (pro-cyclicality, credit rating agency reform, the mark-to-market principle, Basel II) within the next two months, as some Europeans are pushing to do, could lead to superficial or ill-considered recommendations. Korea is inclined to pass those issues to a wise men's group to consider on a longer timeframe. Based on the commitments that came out of the November 15 summit on fiscal stimulus and a standstill on trade and investment barriers, Korea is working hard to establish some sort of monitoring mechanism within the G20 process; if these commitments weren't observed, Sakong noted, the G20 process would be criticized and become irrelevant. Sakong had been in close and generally productive consultation with the UK about the April meeting, although he feared the British were adding new, unrelated agenda items (climate change, poverty alleviation) and participants that would divert attention from the critical task of re-starting global growth and stabilizing the world's finances.

¶13. (C) Sakong concluded that he looked forward to close coordination with the new Administration on planning for the April 2 meeting and beyond (including Korea's Chairmanship of the G20 process in 2010). The political transition in the United States had created an opportunity for some countries to push their own, not necessarily market-oriented agenda. Sakong said Korea, which believe it shares the same basic approach as the U.S. to these issues, looked forward to a resumption of U.S. leadership. End Summary.

¶14. (SBU) Economic Minister Counselor met January 28 with Sakong Il, Senior Advisor to President Lee (and former Finance Minister), who reviewed his priorities as Korea's new G20 coordinator. The meeting occurred at the Blue House (Korea's Presidency). Kyung-jin Song, Sakong's Chief of Staff, also participated.

#### G20 -- Global Legitimacy, the Right Mix of Members

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¶15. (C) Sakong explained that since the start of the global financial crisis last fall, Korea had come to view the G20 process as the best forum for moving forward on global financial and economic cooperation. The G20, by virtue of its varied membership, had a global legitimacy that at this point the G7 was viewed as lacking. Moreover, Korea believed the G20 provided "the right mix of members" with a core of pragmatic voices that would help ensure that debates would ultimately come down on the side of market-oriented solutions. All countries needed to learn the right lessons from the current financial crisis, and tighten regulation accordingly; but, Sakong said, it was important not to create

a new forum that would have a built-in majority for countries that would use it to "stop Anglo-Saxon capitalism" or other ideological crusades.

¶16. (C) Sakong conveyed Korea's gratitude to the United States for persuading other leading economies to make the G20 the vehicle for the November 15 Summit on Financial Markets and the World Economy. Prior to that, Korea had been making the same case to other leading economies, but the Europeans (especially the French, who occupied the Presidency at the time) had seemed resistant, while the Japanese seemed unwilling to play a leadership role on the issue. U.S. support had been critical; the Korean people recognized that it was U.S. support that led to the G20 format being chosen for the November summit discussions.

¶17. (C) Sakong noted that there had recently been some discussion of other possible fora for global economic cooperation. In the fall, President Sarkozy had proposed a G-13 or G14 that would extend the G7 to a number of major emerging markets, and Sakong said Sarkozy had been revisiting that idea recently. Sakong said he was somewhat skeptical about alleged concerns about efficiency used to rationalize a smaller framework; to him, these proposals seemed to invite in just enough emerging markets to provide greater global legitimacy while also preserving much of the over-representation of Europe that one currently found in the G7. More concretely, Korea believed inventing a new organization would sacrifice the existing track record and infrastructure developed by the G20, and now expanded to the leaders' level in Washington in November and London in April.

Sakong remarked that a recent high-level Brookings piece on global economic governance had initially proposed a G16 structure and then, upon its publication after the November 15 G20 summit, stated in an addendum that the G20 seemed to be appropriately filling the role they had initially proposed be taken up by a G16, and so they endorsed the G20 process instead. This seemed, Sakong noted, to be further demonstration that the G20 was becoming the natural successor to the G7 process.

¶ 8. (C) Sakong acknowledged that as a G20 member, Korea had an obvious vested interest in supporting the G20 process, since it gave Korea a seat at the table that some other economic fora did not. However, he said, Korea believed the case for its inclusion in any system of global economic cooperation was self-evident. Not only was Korea the 13th largest economy in the world, but because of its highly developed trade ties and open economy, Korea had an importance in global trade and finance flows that exceeded its overall economic ranking. Korea had the sixth largest foreign currency reserves in the world, was the sixth largest trading economy in the world (excluding intra-EU trade) and was one of the world's largest traders of electronics, ships, steel and autos (on the export side) and agriculture and energy resources. Korea's currency was free-floating, its financial markets liberalized and highly developed, and its financial supervision strong. These data, Sakong added, also served as the basis for Korea's separate request to be considered for inclusion in the Financial Stability Forum (FSF) (reftel).

Planning for the London Summit

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¶ 9. (C) Looking to the April 2 Summit in London, Sakong said he had been in touch with most other G20 counterparts and was generally hopeful about the outcome, although he had some concerns. The G20 deputies process seemed to be plugging away at the (47) tasks assigned at the November 15 meeting. If anything, Sakong feared the process might be moving too quickly. The Europeans had put some very complex issues on the November 15 workplan, including pro-cyclicality, credit rating agency reform, the mark-to-market principle, Basel II; and Sakong feared that if the G20 process rushed to reach recommendations by April 2, the resulting recommendations could be superficial or ill-considered. Korea was lending its support for pushing these issues to a "wise men's group" that could consider these issues on a longer timeframe. (Sakong noted as an aside that he questioned the effectiveness of the G20's working group on IMF reform since the most important reform was the re-allocation of voting weights to reduce European over-representation and increase Asian representation, but the Europeans were keeping that

issue off the table.)

¶ 10. (C) Korea had repeatedly tried to establish some G20 mechanism to monitor how countries were implementing their commitment to the use of fiscal measures to stimulate their economies and to a standstill on new barriers to trade and investment (which Korea was proud was an initiative proposed by President Lee at the November 15 meeting). Korea believed that since the leaders had committed to these in November, if the G20 process did not demonstrate an ability to deliver on these commitments, the G20 process would become irrelevant (Indeed, Sakong noted, most of the criticism of the G20 process to date had focused on its inability to prevent members such as Russia, Argentina and India from imposing new trade barriers). Some of the other G20 members were resistant -- Sakong was not sure if that reflected an uncertainty about the subject matter, or a more general push, especially from European countries, to keep the G20 "in the box" of looking at financial regulatory architecture rather than broader economic coordination issues. Another concern for Sakong was that the British, as host of the April 2 meeting, seemed inclined to load up the event with worthy but not entirely relevant themes -- climate change, poverty alleviation -- and to invite other countries that did not play a major role in the global financial system. While Sakong reiterated that these were important issues that warranted attention, he feared that appending them to the G20 summit would dilute the effectiveness of the G20 process.

¶ 11. (C) Sakong noted that as the new Administration team got in place in Washington, he looked forward to coordinating with them soon. Due to the political transition in Washington, he thought the agenda for the London meeting was

evolving without the usual U.S. leadership role -- and that some other countries had very consciously tried to fill that breach with their own agenda. Inasmuch as Korea believed its interests in the process to be largely congruent with those of the United States, Korea looked forward to coordinating closely with the U.S. on the run-up to the London meeting, as well as beyond, as Korea prepared to take on the G20 chairmanship in 2010.

#### Reorganizing Korea's G20 Team

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¶12. (C) Sakong updated on some organizational changes the ROKG had made to more effectively manage the G20 process and prepare for Korea's chairmanship year in 2010. Sakong (a former Finance Minister), had recently given up his position as Chairman of the President's Council on National Competitiveness (PCNC) in order to serve as Korea's full-time G20 coordinator, based in the Blue House (Korea's Presidency). (Kang Man-soo, who recently stepped down as Korea's Finance Minister, would take Sakong's place as PCNC Chair.) Sakong would coordinate the activities of the Ministry of Strategy and Finance (where Deputy Minister Shin Je-yoon served as Korea's Finance Deputy) and the Ministry of Foreign Affairs and Trade (where Deputy Minister Ahn Ho-young served as Korea's Sherpa for the G20 summit process).

¶13. (C) In a separate meeting, EMIN and Deputy Couns were briefed by Director General Choi Heenam on the newly constituted G-20 Task Force at the Ministry for Strategy and Finance (MoSF), which Choi heads. Choi was accompanied by Director of the Planning Division Ryu Sangmin and Deputy Director Choi Jae-Hyuk. Choi noted that the new Directorate had been formed in early January and was still coming up to full strength in terms of personnel. The Task Force consists of three offices: Planning and Coordination; Working Groups 3 and 4 (IMF Reform and World Bank and Multilateral Development Bank issues), and Working Groups 1 and 2 (Financial Regulation and International Cooperation and Market Integrity). Choi noted that this last office would be headed by a Director from the Financial Supervisory Commission (FSC), but that it would be located within the MoSF. Choi reports to Deputy Minister for International Affairs Shin Je-yoon (Korea's G-20 Finance Deputy). Choi added that Korea's views on trade issues within the G-20 context are developed in MOFAT under the supervision of Deputy Minister Ahn.

STEPHENS